

EXPLORING TRADE SECRETS AS FORM OF INTELLECTUAL PROPERTY FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) IN NIGERIA

Ogundari, E.¹

Abstract

Intellectual property is of considerable value to businesses and is considered to be of economic importance to the growth and value of any economy considering the shift to knowledge-based economy. Focus has however been put on intellectual property in large businesses and the value of intellectual property owned by small businesses has been largely overlooked and under estimated. In addition, much attention has always been given to the well-known intellectual property rights such as patents, copyright and trademarks while the value of trade secrets to the running of a successful SMEs are usually underrated. The paper aims to show the value of trade secrets to SMEs and how they may be protected by the adoption of adequate trade secrets protection strategies. A review of the legal framework relating to the protection of intellectual property and case law is carried out as well as a content analysis of relevant literature. The study found that some trade secrets are owned by many SMEs but the firms need to take steps to maintain the confidentiality of the secrets. The study therefore highlights the various ways in which this may be achieved with a view towards improving its effective use by SMEs. The study concluded that the protection of trade secrets, especially to small businesses is vital given the rapid increase in the use of technology that can easily disseminate information and the easy mobility of employees that are experienced in SMEs.

Keywords: trade secrets, intellectual property, SMEs, confidential information

1. Introduction

An SME is a small or medium sized business and that mostly services the local economy. It employs a small number of people and is managed and by the owner who provides most of the capital of the business.² SMEs are the most common type of business in the economy of any county.³ They have the characteristic of being versatile and have the flexibility to adapt to changes in the economy and market demand. SMEs have the potential to innovate and create new technologies therefore it is important that appropriate policies that

¹PhD (Law), Lecturer, OAU, Ile-Ife, Nigeria. eogundari@oauife.edu.ng

² Samuel Muiruri Muriithi, 'African Small and Medium Enterprises (SMES) Contributions, Challenges and Solutions', *European Journal of Research and Reflection in Management Sciences* (2017) Vol. 5 No. 1,

³ Gentril Berisha and Justina Shiroka Pula, 'Defining Small and Medium Enterprises: a critical review', *Academic Journal of Business, Administration, Law and Social Sciences* (2015) Vol 1 No 1, 17-28

support their competitiveness and unique abilities be adopted.⁴ The ability of an SME to develop new intellectual property products varies greatly depending on the resources available to them, the size of the firm and the economic sector in which it is operational.⁵ Nevertheless, most SMEs have some type of information that is critical to their business and is worth protecting to enhance their business.⁶

In a developing country such as Nigeria, the presence of healthy and competitive SMEs is an important component in economic development, economic stability and poverty alleviation. SMEs contribute to the GDP of the country and may be a source of foreign exchange where their products are able to feed international markets. It plays an important role in employment creation and income generation for a vast majority of the population, ensures that there is local use of resources as well as labour which meets the needs of the local market.⁷

Trade secrets are an unexplored aspect of intellectual property with regard to SMEs in Nigeria. The role that trade secrets can play towards creating an advantage in the competitive business world and its use as a strategic intellectual property resource cannot be underestimated as it is a tool used to maintain competitiveness in business. The paper explores trade as a tool towards achieving the goal of improved economic significance for SMEs in Nigeria. It examines the nature of trade secrets, benefit of using trade secret protection as a business strategy as well as the various methods that may be employed for its preservation. This is done with a view towards achieving the efficient exploitation of the intellectual property rights owned by SMEs in Nigeria in the midst of technological advancement and employee mobility is explored.

2. The Importance of Intellectual Property to SMEs

Intellectual property is one of the major resources that is available to grow the economy of the country and is considered as a valuable asset to any company or organisation. It is a resource to be commercially exploited and used to create opportunities to grow the firm. It is a motivator for companies and individuals to carry out research and development for the creation of new products and innovation.⁸ The protection of intellectual property rights in a country is

⁴ Tom Gibson, H. J. van der Vaart, (2008) '*Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries*', Brookings Global and Economic Development, available at https://www.brookings.edu/wp-content/uploads/2016/06/09_development_gibson.pdf

⁵ Alexander Brem, Open innovation and intellectual property rights How do SMEs benefit from patents, industrial designs, trademarks and copyrights?, *Management Decision* Vol. 55 No. 6, 2017 pp. 1285-1306

⁶ This may include recipes, manufacturing processes, customer lists and data, marketing plans and strategies, factory drawings, etc.

⁷ Gentril Berisha and Justina Shiroka Pula, (n.2)

⁸ Sandra Yesenia Pinzon-Castro (et al), 'The Relationship between Intellectual Property and Innovation: A Mexican SMEs Perspective', *Journal of Business & Economic Policy* Vol. 2, No. 3; September 2015, 59-68

considered as being an important consideration to the acquisition new technology through technology transfer and the attraction of foreign direct investment.

SMEs in Nigeria also face several challenges including low level of entrepreneurship skills, insufficient capital, poor management, lack of access to information, limited access to capital markets, inability to build competitive advantage through the production of quality products and services.⁹ Some of these challenges could be mitigated by the effective management of the IP assets of the firms. SMEs may profit greatly from IP protection depending on the specific needs of the firm and the competitive environment in which they function. The protection may take the form of patent protection of their own products or utilizing licensing agreements to exploit the patents of other developers. The firm may also utilize trademarks, industrial designs and branding as a means of maintaining a competitive edge in the sector and as a powerful marketing tool, copyrights may be utilised in protecting any writing, drawing or advertisements. Trade secrets may be used to protect any knowledge and information, including customer information, that may be associated with the workings of the firm.¹⁰

In order for a business to be successful and maintain a competitive edge, it is essential that the quality of its goods and services is constantly being improved while at the same time reducing the cost of production. This may be achieved through effective use of all business assets of which intellectual property assets take an important place.

It is important that any business should protect their intellectual property by adopting a strategy that is consistent with the firm's goals. A working knowledge of the benefits of protecting IP as well and the costs of doing so should be appreciated as the exploitation of ideas, knowledge and other intellectual property assets may significantly enhance the firm's position and value and there could be serious costs in neglecting to protect its IP assets.¹¹ Intellectual property are assets though intangible, and as with tangible assets it may be used to gain access to finance for the firm as it may stand as collateral for loans and may be used to judge the viability of a project or the company itself.

Therefore, it is important that a business that depends on the use of any specialized knowledge should appreciate the value of protecting its IP and the

⁹ Akanni, Lanre Fatai, (et al), 'Challenges of Small and Medium Scale Enterprises in Nigeria. Evidence from Selected SME in Kwara State', *African Scholar Journal of Mgt. Science and Entrepreneurship* (2021) Vol. 22 No. 7, pp. 169-186

¹⁰ Sati-Salmah Sukarmijan and Olivia De Vega Sapong, 'The importance of intellectual property for SMEs; Challenges and moving forward', *UMK Procedia 1* (2014) 74 - 81

¹¹ WTO Council for Trade-Related Aspects of Intellectual Property Rights, Extract from Minutes Of Meeting of the Council for Trade-Related Aspects of Intellectual Property Rights, held on 13 June 2017

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potential losses that it may experience if it is not adequately protected and choose a strategy that is suitable to its needs.¹²

There may be many reasons the SMEs may fail to utilize the IP system to protect their IP assets. Some of these reasons include lack of knowledge on the benefits of protecting intangible assets such as IP, the high cost that may be needed to protect IP and the lack of necessary expertise within the firm to develop an appropriate intellectual property protection strategy.¹³ Therefore it is necessary that SMEs in Nigeria know the IP that are part of their assets and the step they need to take that would protect that particular IP to adequately protect and exploit it. This paper however focuses on trade secrets and how they may be protected by SMEs

3. The Nature of Trade Secrets

A secret is " a piece of information that is only known by one person or a few people and should not be told to others".¹⁴ A trade secret is however described as consisting "of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers."¹⁵

"Trade Secret' means information including formula, pattern, compilation, program, device, method, technique or process, that:(i) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, by other persons who can obtain economic value from its disclosure or use and
(ii) Is the subject of efforts that are reasonable under the circumstances to maintain secrecy."¹⁶

A trade secret is a special knowledge that has value in a business and can be considered property and therefore, it may be sold or transferred for something of value. It is different from other forms of intellectual property in that while the others function through disclosure of the essential aspects of the property, trade secrets seek to protect intellectual property through non-disclosure. The information that is a trade secret even if it is not new or original may be kept from the public and exploited for an unlimited amount of time.¹⁷ If a third party

¹² Sati-Salmah Sukarmijan and Olivia De Vega Sapong, (n.9)

¹³ EUIPO, *2022 Intellectual Property SME Scoreboard, European Union Intellectual Property Office*, 2022 DOI: 10.2814/28513; Akinyele, Samuel Taiwo, Intellectual Property Rights and Sustainability of Business Growth: Empirical Evidence of SMEs in Odeda, Nigeria, *African Scholar Journal of Mgt. Science and Entrepreneurship (JMSE-7)* 145-168

¹⁴ Cambridge Learner's Dictionary

¹⁵ Restatement of Torts 1939

¹⁶ Uniform Trade Secret Act, Sec. 1. (4)

¹⁷ Risch, Michael (2007). 'Why do we have trade secrets', *Marquette Intellectual Property Law Review*, 11(1), 1-76, p.12

obtains information that is a trade secret, the method of acquiring such information is of utmost importance in determining its legality and the rights of the owner of the trade secret.

Non-technical information that may be in the possession of the SME may be very valuable and should be protected. Such information includes customer lists, contacts and databases, supplier information, product development plans, equipment acquisition plans, financial information, business plans and strategies. Thus, it may be used to protect any sort of information that may be of economic value to the owner.¹⁸

The extent of trade secrets incorporates several elements, which may be identified as follows:

1. Technical information emanating from research and development activities of the firm which may include, processes, compounds or mixtures, formulas, ongoing research, and technological data.
2. any information associated with the production process which may include details such as costs, details relating to specialized production equipment, processing technologies, and production process specifications in addition to other relevant equipment. This will also include information relating to suppliers, quality control, sales data and reports, competitor insights, customer-related information, and results from sales and marketing studies and reports, as well as sales and marketing strategies.
3. Information relating to company finances including data in financial statements, budgetary allocations, computer-generated outputs, profit margins, production expenditures, earnings and loss records, and administrative documentation. In addition, information containing internal administrative details that contain details such as organizational structure, decision-making processes, strategic business planning, and proprietary company software.

It should be noted that the scope of trade secrets is wide accommodating both technical non-technical information.¹⁹ This makes the likelihood of most SMEs in Nigeria owning some form of trade secrets very high.

4. The Protection of Trade secrets

The kind of property that may be protected by trade secrets are those that cannot be discerned on the marketing of the final product. It may be possible that a product may be reverse engineered by a person who is skilled in the art.

¹⁸ McGurk, M. R., & Lu, J. W. (2015). 'Intersection of patents and trade secrets', *Hastings Science and Technology Law Journal*, 7(2), 189-214, 190

¹⁹ S. Sinaga, (et al), 'Legal Protection of the Rights of Trade Secret Information Owners in Employment Agreements that Do Not Include a Trade Information Confidentiality Clause', *Indonesian Journal of Humanities and Social Sciences* Volume 5 Issue 3 September 2024, pp. 1543-1555

However, the process for making a particular product may not be discernible from the product itself. Where it may be easily discerned, it will be more prudent for the intellectual property owner to explore other means of protection such as patents, which gives a monopoly for a limited time even if the invention is disclosed and adequately described on the making of the application for the grant of the patent.

There are two major ways of protecting trade secrets – the creation of contractual obligations to protect confidential information and trade secret laws specially promulgated to protect trade secrets. However, in Nigeria, there is no specific law that specifically protects trade secrets rather, trade secrets are protected under common law. All businesses in Nigeria are confined to utilising contracts to provide for the finer points while protecting their trade secrets.

Any information that is considered confidential may be subject to contractual terms that are designed to protect the disclosure of the information. These contractual terms may be used to define what is confidential information and may be tailored to fit the peculiarity of individual businesses. It may be written in broad terms to cover even non intentional information disclosure such as where the offender is negligent.

The disadvantage of depending only on contractual protection of trade secrets is that because of the doctrine of privity of contract, only those who are parties to a contract may be bound under it.

For an information to be adequately protected as a trade secret under the law, the information first must 'have the necessary quality of confidence about it'. Secondly, if the that information is shared with any person, it must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the disadvantage of the party who owned the secret."²⁰

Trade secret law developed as an aspect of the law of torts under the common law and has largely developed through judicial decisions. In Nigeria, there is no law specifically protecting trade secrets as an intellectual property that is similar to what is obtainable for the protection of patents or copyrights. As with other forms of intellectual property rights, trade secret law allows for competition and innovation. It promotes this through attempt to preserve lawful business practices. It is usually directed to immediate parties involved in a dispute and therefore relies tools usually used in torts and contract to achieve its objectives. As was appropriately stated:

A full understanding of confidential information law commands an appreciation that it is only partly tort law, only slightly property law, is largely contract law, and still more largely equity law in the sense of its being the

²⁰*Coco v. Clark* [1969] R.P.C. 41 at 47.

emotional reaction of the conscience of the judge without confinement by the forms of property, tort or contract law.²¹

The success or failure of a case involving the misappropriation of a trade secret usually depends on a claim of breach of contract or a tort such as trespass.²²

In order for a piece of information to qualify as a trade secret and to be protected as such, it must fulfil certain criteria. First, the information must be a secret held only by one or few persons. The more people within or outside the firm that hold the information, the more likely that it would not qualify as a trade secret. This does not preclude that fact that the information may be given to a few people but it must be done in confidence with the understanding that it is confidential information and not to be disclosed to the public. Secondly, its value must stem from the fact that it is a secret and not widely known. If an information is of little value to the company or its competitors it may not be considered a trade secret. Third, reasonable steps must have been taken to protect it.²³

What is reasonable is a question of fact and is considered to be what any reasonable person in those circumstances would do to keep that type of information secret. Failure to do so would cause a claim of misappropriation of trade secrets to fail. The owner of a trade secret therefore cannot disclose the information publicly or be careless with the information in any way that becomes disclosed. Some of the measures that may be considered as 'reasonable' are labelling documents "proprietary and confidential", limiting access to the database where information is stored, employing external security measures, requiring all employees to sign a confidentiality agreement, giving information to employees on a need-to-know basis.²⁴ However, the failure to request employees to turn in confidential information in their custody after their employment is terminated, failing to mark documents "confidential", failure to inform employees that the information is secret.²⁵ Therefore, a firm intending to keep any information secret must take additional steps to ensure the protection of the secret and also inform anyone who needs to know the information that it is confidential and to treat it as such.

Other factors may also be considered when determining whether an information is a trade secret, if the information was known outside the firm in which it was held; the number of employees that held the information or had access to it; the measures that were taken by the owner of the information to guard its secrecy; the value of the information to both the owner and the competitors in the business; the expenditure used in developing the information; the ease of duplication by others; and whether it was reasonably

²¹ Arnold, 'Problems in Trade Secret. Law', *1961 Summary of Proceedings*, Section of Patent, Trademark and Copyright Law, American Bar Association, p. 248, 251.

²² Risch, Michael (2007). (n. 16)

²³ Robert P. Merges, Peter S. Menell & Mark A. Lemley, *Intellectual Property in The New Technological Age* (6th ed.) Lawforge Publishing, (2023) p.37

²⁴ *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, 444 F.Supp.3d 1198, 1206-7

²⁵ *Yellowfin Yachts, Inc. v. Barker Boatworks LLC*, 898 F.3d 1279, 1300 (11th Cir. 2018)

assessable to a diligent competitor.²⁶ Any technical information that is generally known to persons operating in that field cannot be considered a trade secret even if it was taught to an employee to by the employer.

The owner is only allowed to protect himself against the discovery of his trade secrets by illegitimate means such as breach of confidentiality or theft. Also, unlike other forms of intellectual property that are protected for a limited time, trade secrets may be protected indefinitely provided the information remains a secret and is still economically valuable. There is also no registration that is needed for an information to be considered a trade secret.

5. Benefits of Trade Secrets to SMEs

Trade secrets can play an important role in the intellectual property management strategy of a small business because of its diverse nature and scope of its protection. SMEs can benefit from using trade secrets to prevent the disclosure of critical information necessary to maintain a dominant market share especially where they are one of the pioneer businesses providing that product or service there by creating a competitiveness that enables the business to make maximum profit. It in essence creates a competitive advantage by virtue of its not being known to others.²⁷

SMEs may also utilize trade secrets to protect valuable business information and knowhow that are not eligible for protection under other intellectual property rights such as copyright or patent protection. This lack of suitability under other forms of intellectual property protection may arise because the product or process is not going to meet the strict patentability standards required for patent protection or it may be mainly an idea or a collection of information that does not qualify for copyright protection that requires that in addition to originality, it must be expressed and put in a recorded form that may be perceived. Moreover, it is likely that SMEs would not have the large inventions that would need patent protection but rather may own incremental innovations that may more suitably protected under trade secrets.²⁸ The criteria that is necessary for protection under other forms of intellectual property are not necessary when it comes to trade secrets. For instance, under patent law, the first to file the patent obtains the property rights for the intellectual property and another person is prevented from exploiting that invention even though he independently comes up with the same technology without any contact or appropriation from the patent holder. Also, the information needs to be unique, novel, or non obvious to qualify for protection under a patent. The situation is different under trade secrets, any person is free to find out the secret by legitimate means such as experimentation and the information need not be, novel, or non obvious to be protected as a traded secret thereby

²⁶ P. Jerome Richey & Margaret J. Bosik, "Trade Secrets and Restrictive Covenants", 4 *Labor. Lawyer* 21 (1988) 21-34, pp. 22-23

²⁷Information Security, '*Securing Intellectual Property: Protecting Trade Secrets and Other Information Assets*', Butterworth-Heinemann, 2008

²⁸ Levine, D. S., & Sichelman, Ted. (2018). 'Why do startups use trade secrets', *Notre Dame Law Review*, 94(2), 751-820.

allowing different persons to own identical information. As with patents which require that the property have the quality of being useful and of industrial applicability and trademarks that require actual commercial use, trade secret requires that the information be of economic value to the holder.²⁹ To qualify for copyright protection, the work must be original and put in a form that from which it may be perceived. Trade secret information need not even be original. An SME can protect information such as names and phone numbers that would not qualify for protection under copyright.

Trade secrets may also hold a unique place in the intellectual property portfolio of an SME. This is because of the special rules that it operates under that makes it especially be suited for a small business in Nigeria. The protection offered by trade secrets has the further advantage of not requiring formalities or approvals of any authority and may be protected indefinitely as long as it does not become public and is not discovered independently by competitors. It may also be used for a wider range of information that is viewed as beneficial to the business. Furthermore, the cost of registering and maintaining a patent which may be beyond the budget of a small business is avoided making it a cost-effective strategy for protecting valuable information.

6. Practical Measures for the Protection of Trade Secrets in SMEs in Nigeria

The competitive advantage that trade secrets provide to SMEs requires that the organisation take reasonable steps to protect its secrecy and prevent its disclosure to other actors that may compromise its value. It is difficult to state the value of a particular piece of information but it is quite notable in the business world that certain types of information could be extremely valuable and may influence the success or failure of an organisation. Therefore, its protection and retention within the organisation must be taken seriously and appropriate measures taken to protect it.

The organisation must protect its information from unlawful acquisition by competitors or unauthorised personnel.³⁰ The organisation must also take measures that would prevent the disclosure by the simple passing of information and also prevent the use of the information to another person's advantage.³¹ In order for a claim of trade secret infringement to succeed, the plaintiff must prove two important elements. First, that the information in fact qualifies as a trade secret and second, that the information must have been misappropriated or acquired by the other party through improper means.³² This

²⁹ Risch, Michael (2007). (n. 16)

³⁰This does not mean that the trade secret owner should take unreasonable steps as determined in *DuPont de Nemours and Company v. Rolfe Christopher et al*, 31 F.2d 1012 (5th Cir. 1970) "We should not require a person or a corporation to take unreasonable precautions to prevent another from doing that which he ought not to do in the first place. Thus, DuPont should not have been expected to 'put a roof over the unfinished plant to guard its secret.'"

³¹ Risch, Michael (2007). (n. 16)

³² Misappropriation of a trade secret involves improper means used to acquire or use a trade secret.

includes the acquisition of information through "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage³³ through electronic or other means."³⁴

The firm may also take practical steps towards protecting its secrets when in the process of seeking funding or partnerships with other firms that may necessitate the disclosure of the secret in the process of negotiations. The firm may require the other party to sign non-disclosure agreements that would put them under an obligation to protect the secrets and not utilise it for their own benefit. In the Supreme Court of California case of *Altavion Inc. v Konica Minolta Systems Laboratory Inc.*,³⁵ where it was stated that

"trade secret law allows the inventor to disclose an idea in confidential commercial negotiations certain that the other side will not appropriate it without compensation. The holder of the secret, may disclose information he would otherwise have been unwilling to share, and this permits business negotiations that can lead to commercialization of the invention or sale of the idea, serving both the disclosure and incentive functions of intellectual property law."

It is therefore prudent that every SME should utilise appropriate non-disclosure agreements to protect its trade secrets that may be disclosed in the process of any talks or negotiations with third parties. This should be done before any discussions start and disclosure of sensitive or confidential information is made. The signing of a non-disclosure agreement creates a shroud of secrecy that allows the parties to discuss more freely on the understanding whatever is discussed and revealed would not become public knowledge or be exploited by the other party even if negotiations break down. The agreement should contain an appropriate definition for what the parties mean by "confidential information" while avoiding defining the term narrowly. Special attention should be taken to include information that is especially relevant to the business that the organisation operates with. This is to prevent inadvertently waiving protection for information not covered by the definition thereby occasioning a leak.³⁶

It should be noted that the non-disclosure agreement must be enforced by the parties through legal means. Any breach of confidentiality by the third party should be the subject of litigation. This has the disadvantage of being an additional expense for the SME in protecting its intellectual property.

³³*DuPont de Nemours and Company v. Rolfe Christopher et al*, 31 F.2d 1012 (5th Cir. 1970) where the defendant took aerial photographs from a low flying plane of the plaintiff's plant which was under construction. It was determined that even though the flight was legal the espionage was an improper way of obtaining the plaintiff's secrets.

³⁴ US Uniform Trade Secrets Act s. 1(1)

³⁵ 171 Cal.Rptr.3d 714,226 Cal.App.4th 26

³⁶Information Security, *Securing Intellectual Property: Protecting Trade Secrets and Other Information Assets*, Butterworth-Heinemann, 2008 p. 34

One of the major ways by which confidential information may be lost is through employees of the organisation. Employees are critical to the running of any organisation and some of them by necessity must be made privy to sensitive information that is critical to the carrying on of the business of the firm. In many instances, employees are directly involved in the generation of information that may be classified as trade secrets through their schedule of duties that is carried out in that organisation. Such information may include or involve systems, procedures, and methods for conducting business activities of the organisation. Sometimes the information may encompass technological aspects, such as product formulations, as well as business operation systems. SMEs may have a high turnover of staff and should pay attention and take active measures to prevent loss of trade secrets when employees leave the firm either voluntarily through resignation or involuntarily through dismissal.³⁷ Steps must therefore be taken with any employee privy to sensitive information to avoid the careless, inadvertent and malicious loss of information that could compromise the business of the organisation.

The employee should be made to sign an employment contract which is "a contract between an employee and an employer, containing the terms of employment, along with the rights and obligations of both parties." Essentially, this agreement must be written in such a way as to properly define the terms that govern the employment relationship, specifically the respective rights and duties of both the worker and the employer. Part of rights and duties that should be properly defined are the ones that pertain to the protection of the company's confidential information. Common law implies a covenant between the employer and the employee to the effect that an employee is not to disclose to third parties or use to his own profit any trade secrets or information which he obtained during the course of his employment. This should however be strengthened by an express agreement in the employment contract for the employee not to disclose any confidential information or trade secret.

The confidentiality clause should properly define the parties and their roles while stating the legal relationship that creates the obligation to maintain the secret. The company should be identified as the trade secret owner and the employee having the obligation not to disclose the information and ensure that the secret is preserved for the company. The confidentiality clause should properly describe the type of information the firm considers as confidential paying attention to the kind of business in which it deals so as to properly describe the type of information that it classifies as being confidential as well as the actions that need to be taken or avoided in order to keep the confidential information secret. The agreement may provide for circumstances or conditions where the employee may be excluded from keeping the information confidential. The agreement should have a validity period and a declaration that the employee would bear responsibility and losses if the confidential information is disclosed to third parties by the employee.³⁸

³⁷ P. Jerome Richey & Margaret J. Bosik, "Trade Secrets and Restrictive Covenants", 4 *Labor. Lawyer* 21 (1988) 21-34, pp. 22-23

³⁸S. Sinaga, (et al), Legal Protection of the Rights of Trade Secret Information Owners in Employment Agreements That Do Not Include a Trade Information Confidentiality Clause,

Furthermore, provisions should be included in the employee's agreement to take care of situations where the employee has doubts as to the confidential nature of any information in his knowledge or custody that he should clarify with his employer before making any disclosure to a third party.³⁹

The firm still has to consider the validity of the confidentiality clause in circumstances where the employee leaves the employ of the firm and would therefore carry knowledge of the trade secret either to the firm's competitors or by entering into their employ or by the employee setting up his own business and making himself a competitor.⁴⁰ The SME in order to preserve the confidentiality of its trade secrets should consider the use of restrictive covenants. This may be a combination of non-competitive provisions which would have the effect of restricting former employees from working for competitors of the firm and non-solicitation provisions that would have the effect of preventing the former employee from soliciting customers that he may have had knowledge of or contact with while working at the firm or luring employees working away from the firm.⁴¹ Because restrictive covenants affect the livelihood of individuals, the courts handle them with caution and it would have to be proven that they are not only needed but they are fair. As stated in *Esso Petroleum Company limited v. Harper's Garage, (Stockport Ltd.)*

"Generally, all covenants in restraint of trade are prima facie unenforceable in common law. They are enforceable only if they are reasonable with references to the interest of the parties concerned and of the public."⁴²

The restrictive covenant may have the effect of restricting the employee from earning a livelihood if he remains in that business or the locality of his former employers. This has made the legality and validity of restrictive clauses to the test. The court considered whether a master can lawfully prohibit his servant from setting up on his own or taking employment with his competitors. It was stated in *Commercial Plastics Limited v. Vincent*,⁴³

"We think we are right in stating that in relation of master and servant it is a well-established principle of law that a covenant in restraint is viewed by the courts with the utmost jealousy. It is therefore the employer who seeks to enforce it against the servant to show that it is designed for the protection of some exceptional proprietary interest of the

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³⁹Information Security, *Securing Intellectual Property: Protecting Trade Secrets and Other Information Assets*, Butterworth-Heinemann, 2008, p. 32

⁴⁰supra n. 35

⁴¹Saminathan, Madhusmitha, 'Protection of Confidential Information' (April 30, 2022). Available at

SSRN: <https://ssrn.com/abstract=4259104> or <http://dx.doi.org/10.2139/ssrn.4259104>

⁴² (1967) 2 W.L.R. 871

⁴³ (1965) 1 QB 623

employer. If the covenant affords adequate protection to the covenantee, the requirement that it must be reasonable in the interest of the parties is satisfied as the court will not enquire into the adequacy of the consideration for the covenant. And depending on how the covenant is framed, an employer can lawfully prohibit the employee from setting up on his own, or accepting a position with one of the employer's competitors, so as to be likely to destroy the employer's trade connection by a misuse of his acquaintance with the employer's customers or clients."⁴⁴

The ex-employees is prohibited from using information belonging to an old employer because it is considered to be the property of the employer. As stated in *Printers and Finishers Limited v. Halloway*,⁴⁵

"The general law relating to a breach of confidence prohibits ex-employees from using information which "can fairly be regarded as a separate part of the employee's stock of knowledge which a man of ordinary honesty and intelligence would recognise to be the property of his old employer and not his own to do as he likes with."⁴⁶

In order to enforce a restrictive covenant, the firm must show that the former employee is working for a competitor or will be a competitor and that his work will inevitably lead to the disclosure of its trade secrets to its detriment. In *Pepsi Co, Inc. V Redmond*,⁴⁷ several questions were identified for consideration as to whether a disclosure would be inevitable,

- i. is new employer a competitor?
- ii. what is the scope of the defendant's new job?
- iii. has the employee been less candid about his new position?
- iv. has the plaintiff clearly identified the trade secrets that are at risk?
- v. has actual trade secret misappropriation already occurred?
- vi. did the employee sign a nondisclosure agreement?
- vii. does the new employer have a policy against use of others 'trade secret'?
- viii. is it possible to sanitize the employee's new position?

It is one of the requirements for the protection of trade secrets that reasonable steps must have been taken to protect it. Trade secrets could be lost through theft or espionage and SMEs should be especially vigilant and employ appropriate protection measures in the storage and retrieval of confidential information. Care should be taken while using any information technology equipment for storing or sharing information both within and outside the organisation. Technological advances in recent years have provided easier

⁴⁴Ibid at p.640

⁴⁵ (1965) 1 W.L.R. 1

⁴⁶Ibid at p.5

⁴⁷ (1995) (US Court of Appeal) 54 F.3d 1262

means by which information could be obtained and transmitted. The digitisation of sensitive information may make it vulnerable to cyber theft and espionage.⁴⁸ It is also important that SMEs are able to obtain prompt remedies that would curtail the spread of the confidential information, failure to do so could result in the firm suffering adverse effects and loss of business. ■

7. Conclusion

Intellectual property has been shown to be of importance to any business organisation including the SME. It is therefore important that appropriate strategies be employed to manage the intellectual property resources in the business including trade secrets. The SMEs in Nigeria should not overlook trade secrets as one of its valuable resources as it has a wide reach and almost any important information in the business may be considered a trade secret. SMEs should therefore take advantage of the protection of trade secrets to remain competitive and maintain business growth by adopting appropriate strategies that would ensure confidentiality of the information with partners and employees. Doing this will enhance the value and competitiveness of SMEs in Nigeria.

⁴⁸ Blond, S. L. (2024), 'Cyber Vulnerabilities as Trade Secrets', *Virginia Law Review Online*, 110, 52-69.